



## Early Journal Content on JSTOR, Free to Anyone in the World

This article is one of nearly 500,000 scholarly works digitized and made freely available to everyone in the world by JSTOR.

Known as the Early Journal Content, this set of works include research articles, news, letters, and other writings published in more than 200 of the oldest leading academic journals. The works date from the mid-seventeenth to the early twentieth centuries.

We encourage people to read and share the Early Journal Content openly and to tell others that this resource exists. People may post this content online or redistribute in any way for non-commercial purposes.

Read more about Early Journal Content at <http://about.jstor.org/participate-jstor/individuals/early-journal-content>.

JSTOR is a digital library of academic journals, books, and primary source objects. JSTOR helps people discover, use, and build upon a wide range of content through a powerful research and teaching platform, and preserves this content for future generations. JSTOR is part of ITHAKA, a not-for-profit organization that also includes Ithaka S+R and Portico. For more information about JSTOR, please contact [support@jstor.org](mailto:support@jstor.org).

## LIFE INSURANCE BY FRATERNAL ORDERS

---

Organization for mutual assistance is of great antiquity and wide distribution. Societies of this kind have not always been as sharply differentiated as they are to-day. In common with other institutions they have emerged from a comparatively indefinite similarity to a comparatively definite heterogeneity, and have doubtless yet to undergo further development.

The first systematic effort at mutual co-operation along altruistic lines was in the formation of the great trade guilds of the Middle Ages. As the guilds degenerated and gradually outlived their usefulness, the need of substitute organizations became apparent. To the recognition of this need we may trace the rise of the Friendly Societies of Great Britain. Of these, it will suffice to consider a typical specimen, for which purpose I have selected the largest and strongest, the Manchester Unity, I.O.O.F.

This great body, with a present membership of over a million, is composed of and governed by the laboring classes. Local lodges exist in all parts of the country and manage their own affairs in a thoroughly democratic manner. They are as independent as the New England town, being, like the latter, subordinate to a central body of strictly limited authority, to which they send representatives. In the local lodge itself one member is as good as another and discussion is perfectly free. The officers of the central governing body are elected annually, with the exception of the Secretary, whose tenure is permanent.

The founders of the Unity failed to appreciate the nature or magnitude of the financial problems involved in their undertaking. Although the plan of the society contemplated the payment of definite sickness and funeral benefits, no attempt was made to calculate adequate rates of contribution. Aside from the fact that such a calculation would have been impracticable for lack of a sufficient volume of reliable data, its importance was not recognized.

There existed in Great Britain the same feeling that we find so prevalent in our own country: namely, that "Fraternity" could be depended upon to overcome all the evil results of vicious business habits. That Fraternity is capable of accomplishing much can be

doubted by no careful observer; but the tendency to regard it as a panacea is sure, soon or late, to lead to disaster. This the Unity learned in time by the teachings of bitter experience.

Organized in the year 1812, the Unity grew and flourished for several years, because its rates sufficed while the members were all young and mostly in good health. In fact, many of the lodges became burdened with accumulated funds, of which they proceeded to relieve themselves by exploiting the social virtues. They little realized that these very accumulations formed their only safeguard for the future when, on account of the increasing age and infirmity of their members, the claims should become too heavy to be easily satisfied from the proceeds of current collections.

After some thirty years of this loose, improvident operation, it became abundantly manifest to some of the more thoughtful members that the Unity had traveled far on the broad and pleasant road that leads to destruction. Then began an agitation which threatened the very existence of the society through the secession of individuals and entire lodges, but which resulted in a thorough investigation of its past experience and the formulation of adequate rate tables for future use. With the adoption of these tables in 1854, the Unity opened a new chapter in its history which thenceforth has been an uninterrupted record of growth and prosperity. One more reform needed to be, and was, instituted in the decade ending in 1870, by which year quinquennial valuations had become compulsory.

The record of the Unity demonstrates that it is quite within the capacity of the laboring classes to conduct a great business on democratic principles. It is an object lesson which justifies a most optimistic attitude toward future industrial conditions. As such, it has attracted the favorable attention of the actuaries, economists and legislators of Great Britain, all of whom seem to have recognized the fact that they were confronted with a phenomenon of most hopeful import. It is regrettable that a similar movement in this country has received far less sympathetic treatment from experts and officials. Some reasons for this difference of attitude will be given later.

Before leaving the subject of Friendly Societies, of which the Manchester Unity was selected as a type, some mention should be made of the exhaustive investigation of their plans and circumstances which was conducted between the years 1870 and 1875 by a royal

commission. The report of this commission is in every respect a model document, and the recommendations therein contained were not only eminently practical, but were admirably calculated to assure safety and permanence to institutions which had accomplished a vast amount of good and had sinned chiefly for want of light. In 1875 the recommendations of the commission were incorporated in an act of parliament which places the stamp of government approval on such societies as take advantage of its provisions and comply with its requirements.

In the United States, prior to 1868, there were no organizations closely resembling the British Friendly Societies. It is true that secret societies, such as the Freemasons and Odd Fellows, and trade unions were accustomed to assist distressed members, but such work was more or less incidental and not the main object of their existence. Furthermore, the help so extended partook of the nature of charity; that is, it was dictated by sympathy or fraternity instead of by contract.

In 1868, however, John J. Upchurch, a Pennsylvania workingman, founded the Ancient Order of United Workmen, in the plan of which mutual insurance was dominant, although the features characteristic of secret societies in general were by no means ignored. In various centers in the State were organized local, self-governing lodges which were entitled to send delegates to the grand lodge at Meadville, the central legislative body, the elected officers of which managed the financial affairs of the society and compelled obedience to the by-laws on the part of the local bodies. In fact, the grand lodge, although a representative assembly, was the real source of authority, the self-government of the local lodge being based on sufferance rather than on right.

As the society spread into adjacent States and additional grand lodges resulted, the supreme lodge was organized at Meadville in 1871, for the purpose of harmonizing the work. Its function is advisory, rather than authoritative, the grand lodges having declined to surrender their independence and having reserved the right to repudiate their allegiance to the supreme body.

The rapid growth of the Workmen, indicating that it met a popular want, of course inspired imitation, and to-day there are in the entire country upwards of two hundred fraternal beneficiary societies. They all have representative government, the lodge

system and ritualistic ceremonies; in fact, these features are required by the statutes of most of the States. In respect of benefits offered and rates charged, they exhibit all the picturesque variety of which the untrammelled human fancy is capable. That there need be any particular relation between the respective values of the benefits promised and of the contributions charged never seemed to occur to the founders of these societies. In fact, all suggestions of that nature were brushed aside as smacking of theory and, therefore, unworthy of consideration by practical men who had competition to meet and could guess just as clearly as their rivals.

In the seventies, a great impetus was given to the formation of fraternal beneficiary societies by the failures of old-line life companies and the startling disclosures as to the methods followed by some of the most prominent among them. A description of these methods will be unnecessary. They are fully set out in the reports of the Insurance Departments of Massachusetts and New York, published in the decade 1865-1875. Extravagance and mismanagement ran riot; self-interest dominated official conduct and utter recklessness characterized the investment of funds. There was a repetition in this country of the methods adopted in England which disgraced and demoralized the British Life Insurance business. In *Martin Chuzzlewit* they have been depicted for all time by the master hand of Charles Dickens. Suffice it to say that the exposures, principally by the New York and Massachusetts Insurance Departments, so seriously affected public confidence in the life companies in America that the business of the latter remained subnormal for years thereafter. In fact, it did not regain its former proportions until after the passage of stringent inspection laws by several of the State legislatures.

The full tontine policy, now prohibited, but once common, by which the lapsing member forfeited all surplus payments made to the company over insurance cost and expense of management, was productive of great dissatisfaction amongst those who had been compelled by adverse circumstances to discontinue policies which had often been kept in force for years, and to the credit of which there were substantial reserve accumulations, to say nothing of deferred dividends. To these disgruntled victims of old-line methods, the siren voice of the fraternal beneficiary society was sweet indeed. Within the sacred precincts of the lodge room they could denounce to a

sympathetic audience the "outrageous treatment" to which they had been subjected by a "soulless corporation" and could resolve to demonstrate to the world the possibility of combining the business of mutual insurance with the practical exemplification of the golden rule. The idea was a noble one, albeit somewhat too elevated for present-day human nature and insufficiently enlightened by a knowledge of the cost of insurance,

To fraternalists the mathematical reserve on life policies has always been a more or less unholy mystery. Having, in the old ton-tine days, seen this accumulation confiscated in the case of lapsing members, it was a natural inference that a similar course was followed in respect of the dead. Obviously these millions of reserve bore a sinister aspect and represented an unnecessary burden on the helpless policy holder. Thus originated the popular battle cry of "Keep your reserve in your pocket."

For many years the societies remained true to their principles and sedulously avoided accumulation and only with the utmost reluctance did they begin to abandon the practice under the irresistible pressure of experience.

In the oldest societies, such as the Workmen, business principles were at first completely subordinated to the demands of fraternity. No discrimination was allowed because of age, occupation, residence or physical condition—all members were on a perfect equality. That such methods did not wreck the society before it was fairly launched is conclusive proof that the fraternal tie is more than an empty sentiment.

Slowly, but none the less surely, the faulty system of the Workmen has been mended until now the supreme lodge urges with all the force at its command the adoption of a plan prepared under the guidance of a competent actuary. In other words, here, as in Great Britain, the common people have demonstrated their capacity to manage large enterprises on democratic lines. To one who has the welfare of humanity at heart, few signs could be more encouraging.

Few societies have imitated the Workmen's original example of a uniform rate of assessment at all ages. We find the vast majority adopting the system of rates graded to admission ages and remaining level thereafter. Within a few years, a society so operated would find itself composed of groups, corresponding to entrance ages,

each containing members of various ages paying the same rate. In short, a compound Workmen plan had been substituted for the original simple device, with little or no practical advantage.

Of one society, the National Union, special mention should be made, because of the fact that it started on the step-rate principle, the rates being graded by ages and each member being required to pay the rate corresponding to his attained age. This plan was defective because of the fact that the rate schedule stopped abruptly at age 65, no adequate provision having been made for members who should pass that point. It is particularly gratifying to be able to say that this weakness has now been overcome through the efforts and upon the initiative of the members themselves.

In course of time, the older societies began to experience difficulties. In spite of their most strenuous efforts, they found themselves compelled to levy assessments more and more frequently, with the result that they were unable to compete on equal terms with their younger rivals. The latter, having learned something from the experience of their predecessors, endeavored to prevent their own future decay by every fantastic device that the wit of man could conceive. Some of these were actually patented, which fact would indicate that their inventors at least believed them to be effective. A study of these various schemes to secure the advantages of a mathematical reserve, without accumulating it, will convince any unprejudiced mind that the ingenuity of ignorance is still in active operation. Fortunately, the older societies do not find these vagaries attractive, but manifest a tendency to readjust along scientific lines, with the assistance of expert advice.

An important distinction between the British friendly and the American fraternal beneficiary societies should not be forgotten. The main purpose of the former was and is the payment of sickness and funeral benefits, and, although some of them offer ordinary life insurance, the maximum risk assumed on any one life is 200 pounds. The American societies are essentially mutual life insurance organizations, although some of them pay limited sickness and accident benefits. The most popular certificates have a face value of \$1000 or \$2000, but not infrequently they are written for \$5000. The foregoing distinction may help to explain why in the one country the attitude of the actuaries is tolerant or sympathetic, while in the other it is hostile. Practically all of these gentlemen are or have

been, connected with old-line companies, and have thus become somewhat biased, perhaps unconsciously.

The British societies occupy a field of their own, their competition with the business corporations being hardly perceptible. The American societies, on the other hand, are active and most successful competitors of life companies. Furthermore, the founders of the fraternal societies provoked the experts by sneering at them and ignoring their sometimes disinterested advice. At first glance the situation would seem to be unfortunate, but the indications are that it may result in the development of a new generation of actuaries, unfettered by traditions.

The fraternal beneficiary system is now in its thirty-sixth year and its amazing vigor is a source of perennial grief and astonishment to its old-line enemies who regarded it at first with the kind of intolerant contempt that Alexieff used to display toward the Japanese. It seems impossible for men to learn that there are more things in heaven and earth than are dreamt of in their philosophy. The Ancient Order of United Workmen which, by all the rules of orthodoxy, ought to have perished years ago, had, at the end of the year 1903, a membership of 435,015, carrying insurance to the amount of \$745,928,000. Only one society exceeds it in size.

It is evident that we are here confronted with a phenomenon that defies mathematical analysis. The plans of the fraternal beneficiary societies may be simultaneously abhorrent to mathematics and acceptable to human nature.

The policy holders of an old-line company, even though it be the mutual variety, are practically impotent to affect its management, being without organization or knowledge of one another's ideas. As few of them can attend the annual meetings, they usually designate as proxies men of whom they never before heard, and of whose opinions they are blissfully ignorant. They feel and are as helpless as the depositors in a bank who place their trust in the honesty and sagacity of the officers and hope for the best. This is business, pure and simple, and to it business principles apply in all strictness.

The members of a fraternal beneficiary society are organized in numerous local lodges which hold meetings at least once a month and sometimes every week. Here the members become acquainted and here they discuss every detail of their co-operative enterprises. As the time approaches for the regular annual or periodical meeting



of the supreme body, they elect thereto trusted representatives, whom they may instruct if they so desire. There develops in these members a very active feeling of proprietorship in their society and of loyalty to its interests. It is, so to speak, their child, and they will endure no inconsiderable sacrifices to conserve its existence. To such a condition, business rules and principles are inadequate, as they ignore the most vital feature of the phenomenon.

That the foregoing is the true explanation of the failure of facts to verify actuarial predictions is indicated by another striking circumstance. About the time that the fraternal beneficiary movement originated there were organized on the same faulty plans, but with government similar to that of the old-line companies, a number of so-called assessment associations. Although their officers were, as a rule, more keenly sensitive than those of the fraternalists to approaching dangers, yet, with a single exception, due to peculiar conditions, every one of these associations has disappeared or has been transformed into a legal reserve or stipulated premium company. As Carlyle would have said, "This is significant of much."

As a direct result of the lodge system, the societies minimize the expense of field work. The members become voluntary solicitors, without pay. They love and take pride in their organizations, and believe that they render a genuine service to their friends by persuading them to join. A comparison of the respective costs of management of the business companies and the fraternalists is highly enlightening. Thus, for the former, it is annually between eight and nine dollars for each \$1000 of insurance in force; while, for the latter, it is less than one dollar.

If it be argued that lodge dues have been ignored in the comparison, the answer is that their main object is to pay for fraternal features for which there is no counterpart in an old-line company. Nor are these features imaginary. We find them sufficiently powerful to hold together vast societies like the Masons and Odd Fellows, which do not pretend to conduct an insurance business. Millions have been paid by the local lodges for the relief of members who were sick, injured or out of employment. Other millions have been expended in social entertainment, which is a feature not to be overlooked when estimating what has been accomplished by these bodies. I have noted, in many publications, slurs cast at this latter kind of expenditure. Those who belittle the social feature evince ignorance

of one of the strongest points in favor of mutual insurance under the lodge system. Life insurance, *per se*, is taken and carried for the protection of dependents. No benefit is realized until the death of the insured, and, consequently, he who carries and pays for the insurance has no other satisfaction from it than that derived from the consciousness that he has provided for loved ones in the event of his death. Of itself, such a performance indicates a high and noble purpose. Man owes a duty to himself, and when this can be combined with that owed to his family, much has been accomplished toward the consummation of a perfect system of social organization. The lodge meetings not only provide the ordinary pleasures of social intercourse, but under the influence of the teachings of the ritual, they are an inspiration to higher ideals, and beget the altruism that turns the mind outward and makes men wish to live for others beside their own immediate families. This social feature of the fraternities has saved thousands from drunkenness and other forms of dissipation into which they otherwise would have plunged in their blind quest of pleasure. Many of these societies accept members of both sexes, and most of them absolutely bar alcoholic liquors from their lodge rooms.

The combination of life insurance operation along with fraternal and social relations is one that appeals to reason and sentiment and tends to popularize co-operative effort for mutual protection. The life companies have recognized this fact and have undertaken to minimize its effect by representing that they sold policies under which the insured did not "have to die to win."

The not unnatural desire of the policy holder to derive some personal benefit has been met by the business companies in the form of investment or endowment insurance, as well as by the promise of dividends, the latter being simply such portion of his excess payment as the company sees fit to return. Of endowment insurance it may be said that it is an excellent refuge for the man who cannot trust himself to make provision for his old age. The exceedingly wasteful character of this form of investment has been by no one more scathingly exposed than by President Greene, of the Connecticut Mutual Life Insurance Company, a man who believes that the union of insurance and investment is unsanctioned by nature.

In order to add to the attractiveness of dividend estimates and, at the same time, to provide a huge fund to be used at discretion,

the business companies devised the semi-tontine or accumulation policy, by which those who live to the end of the accumulation period are to get magnificent returns, according to the *estimates*. Unfortunately, actual results have always fallen far short of the estimates, because, with so much money at their disposal, the companies could not resist the temptation to indulge in extravagance. It is always pleasant to spend the money of others, if one does not have to account for it.

An important difference between the old-line and fraternal systems is in respect of elasticity. The life company is rigid, the contract being definite as to both benefits and contributions. For the sake of safety, the company is, consequently, obliged to overcharge. Some of this excess doubtless returns to the policy holders in the shape of dividends, but as these are seldom guaranteed, the opportunity for extravagance is obvious. Whether or not it is utilized may be inferred from the fact that the companies make little or no effort to sell non-participating policies, the premiums on which are only moderately loaded for expenses. Some do not sell them at all. One prominent stock company, which used to confine itself to the non-participating form of policy has recently abandoned the practice. Another large company, with a most enviable reputation for conservative and economical management, has of this kind of premium-paying insurance in force only about \$4,000,000 out of more than three hundred millions.

In the fraternal the amount that a member will be required to pay from year to year is seldom entirely definite. His assessment rate may be established in the by-laws, but almost invariably these are subject to amendment by the supreme legislative body. In most of the societies the number of assessments that may be levied in a year is limited only by the needs of the organization. Furthermore, it is not unusual to find a provision whereby no claim can exceed the proceeds of one assessment on the entire membership. As the provision for expense of management is generally quite definite, there results not only the ability to collect each year the exact cost of protection, but a most effectual discouragement of extravagance. The members have never shown a disposition to endorse the doctrine that the services of some men are worth from fifty to a hundred times as much as those of the average citizen, and, as a consequence, salaries above \$5000 are rare. Strange as it may seem to those conversant

with old-line conditions, capable officers are secured without difficulty, in spite of the uncertain tenure of their position. The wisest selections may not always be made, but, on the other hand, the unfit do not survive.

Democratic government naturally involves politics, and from the latter it must be confessed that the fraternal orders are not exempt. That this circumstance is to their detriment is by no means certain. Political aspirations are distinctly honorable when not tainted with graft. From suspicion of graft, the administration of the societies has been singularly free. Although large sums of money have been handled, the losses that have occurred have been due almost exclusively to faulty judgment. Even such losses have been inconsiderable. In fact, in respect of both honesty and economy of management, the fraternal orders can well stand the test of comparison with old-line companies.

Although enough has been said to indicate that the fraternal beneficiary system is in harmony with existing conditions in the United States, it will be useful to investigate its prospect of permanence. In the first place, let it be premised that the failure of individual societies proves nothing against the principle upon which they were founded if other adequate causes are known to exist. The whole movement is still in the experimental stage, for which reason alone uninterrupted success would be little short of miraculous. Representative government has not in every instance proved equal to the tasks imposed upon it, but it has shown an ability to profit by experience. With few exceptions, the recent history of the societies under consideration has been most encouraging. There is every indication that the great majority of them will, through their own efforts and without compulsion, so reform their faulty plans as to assure their financial stability.

Unfortunately, the paternalistic tendency, which is becoming more and more apparent in both State and Federal governments, has so affected the various commissioners of insurance that they are not content to let well enough alone, but must break the shell to let the chicken out. Verily, a little knowledge is indeed a dangerous thing when the possessor thereof is a public official. At their 1903 convention, held in Baltimore, Md., the commissioners agreed upon measures which, if carried into effect, would almost certainly destroy the fraternal beneficiary system. It is difficult to avoid

the conclusion that they were influenced by either hostility or ignorance. In this connection, how unfavorably do they compare with the sympathetic, painstaking members of the royal commission that investigated the British friendly societies.

On this subject I speak feelingly, because I believe that the fraternalists are beginning to solve one of the most important of industrial problems and that their defeat through ill-advised legislation would be little short of a public calamity. They should be required to exhibit their financial condition in a more scientific manner than has been customary, so that the accusation of deception may be deprived of its plausibility, but we should hesitate to take from them the right to establish such rate schedules as they wish. The members are neither children nor imbeciles, and do not need the fatherly care of insurance commissioners or State legislators. They enjoy the advantages of representative government and have demonstrated their ability to modify their plans when the latter have proven unsatisfactory. They are attempting to provide cheap protection for their families and they are accomplishing their design, not perfectly it is true, but with really amazing success. A single one of these societies has since its organization paid in death claims not less than \$135,000,000. This enormous sum of money has gone to the widows and orphans of men who would have carried far less insurance or none at all had it not been for the existence of the fraternalists.

In the face of this fact there are not wanting critics with the effrontery to assert that the societies are vicious institutions, because, forsooth, they may fail some day or they may become too expensive for old men who no longer have any excuse for being insured. Suppose they do fail, as in the case of the American Legion of Honor. The downfall of that society has hurt a mere handful as compared to the numbers that have been benefited by its existence. As fraternalists have usually been operated, their failure does not involve the loss of large accumulation, for these they do not possess. It does involve, however, a very serious hardship to those members who can no longer gain admission to other societies because of age or infirmity.

Popular government has been sufficiently tested to justify my belief that the fraternal orders will not fail, in the long run, if let alone. They can be killed, doubtless, and against this danger the

only safeguard is eternal vigilance. Their success, as I have already intimated, means much to the cause of humanity.

No thoughtful observer can regard our present industrial régime as final. With its remittent warfare between capital and labor, it is obviously a temporary condition. By what is it to be succeeded? Shall it be the deadly stagnation of socialism, or shall opportunity be left for the development of individualism which has played so prominent a part in the history of the human race? Perhaps, if the great business of life insurance can be successfully conducted on democratic lines, the outlines of the answer may become discernible. Possibly capitalists, as a distinct class, may become as unnecessary as an hereditary aristocracy.

One may be permitted to indulge the dream that some day capitalist and labor may be combined in the same person, and that great industries may be competently managed by officers elected by the whole body of the workers. There is nothing incredible in the supposition, which is, on the contrary, in line with the course of human evolution. Such a condition would allow free play to individual ambition, while abolishing strikes and the existing abnormal contrasts of wealth and social position.

Since reforms are inaugurated by movement of the masses, and since five millions of the wage-earners and breadwinners in the United States and ten millions in Great Britain are taking lessons in economical science from the best of all teachers, *Experience*, is it beyond reason to anticipate development of the mutual and co-operative principle underlying fraternal society management in the business relations between producers and consumers, the great majority of whom are the wage-earners and breadwinners of the country.

To be more definite, let me call attention to the fact that the *insurers* and the *insured* are the same persons in a fraternal Beneficiary society. The officials and managers are strictly and truly the agents of the members from whom the contributions are collected and to the beneficiaries of whom they are distributed. No capitalist stands between the contributing members and the dependents of deceased members. Only a central office, with competent agents in charge, is needed for the collection of millions from the many and the distribution of the same in the payment of promised benefits. Why is it not possible to extend this principle

of mutual cooperation and entirely eliminate the capitalist and forever be rid of his exploitation of labor with its attendants of friction and ferment? Will not the masses, some day, learn the general application of this principle?

The fraternal beneficiary system has a profound significance; it is symptomatic of the times, and what it needs is intelligent direction with a minimum of State interference. Any institution that has distributed to widows and orphans, within three decades, the enormous sum of more than seven hundred millions of dollars, \$63,000,000 of which was paid out in 1903, is certainly entitled to serious consideration by those who make a study of political and social science. One hundred and fifty of the existing societies have promised to pay death benefits amounting to more than six thousand millions of dollars. The ability to fulfill their promises means much in more than four million of American homes. Penury, misery and crime will result from inability to carry out their contracts of insurance.

ABB LANDIS.

*Nashville, Tenn.*